

Forest Products

News Reports

U.S. softwood plywood exports to the EU under pressure

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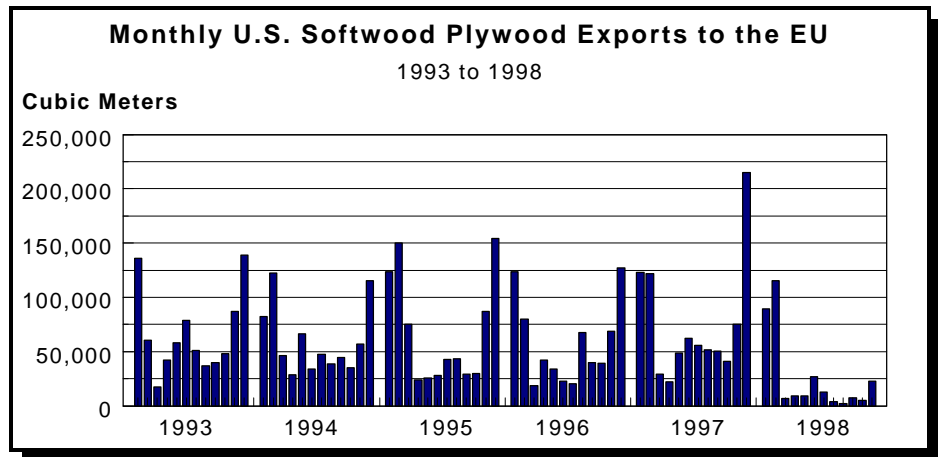
U.S. Exports Off to Slow Start

November usually marks the beginning of the export season for U.S. softwood plywood to the European Union (EU) as North American suppliers begin to fill the EU's tariff rate quota for the upcoming year. More than 55 percent of U.S. softwood plywood exports to the EU typically take place between November and the end of February. However, according to the latest export figures, this year's quota (1999) has hardly been touched. While the United States normally exports between 170,000 and 300,000 cubic meters (cum) in November and December, in November and December of 1998 the United States exported less than 25,000 cum to the EU. This is the lowest export volume since at least 1977.

The annual duty free quota was originally established during the Tokyo Round trade talks, was amended in 1987 with the accession of Spain and Portugal to the EU (subject to annual renewal), and was made permanent with the accession of Austria, Sweden, and Finland. Under the quota the United States must compete with other non-EU members for the first 650,000 cum of softwood plywood allowed into the EU. After the quota has been filled, normally by the end of March, U.S. softwood plywood exports are subject to the full tariff rate, seven percent in 1999. Although EU tariff rates on softwood plywood have been coming down as part of the Uruguay Round Agreement, the quota still defines the pattern of trade.

Contributing Factors

Although the European economy remains



strong, several factors have recently combined to increase the competitive pressures on U.S. softwood plywood in the European Union. As a result, U.S. exports of softwood plywood to the EU in 1998 dropped more than 60 percent from previous years, amounting to only 308,000 cum in 1998. On a value basis, U.S. softwood plywood exports to the EU totaled \$76 million in 1998, \$139 million less than in 1997.

Increased European OSB Production

One reason for the pressure on U.S. softwood plywood exports is increasing production and use of Oriented Strand Board (OSB) in Europe. Although estimates vary, European production of OSB increased from approximately 390,000 cum in 1996 to 431,000 cum in 1997, and 660,000 cum in 1998. The United Nations Economic Council for Europe (UNECE) Timber Committee projects European production reaching 710,000 cum in 1999. This represents a 53 percent increase in production in 1998 and further 7.5 percent increase in 1999.

Although not all of the increased OSB production has displaced U.S. softwood plywood sales, there is no doubt that it has already had an impact. Currently OSB in Europe trades at prices 20 to 30 percent below that of American Southern Yellow Pine plywood. This price differential has helped to induce users to experiment with OSB, especially in applications such as packaging where price may be the primary decision making factor. European traders also report that much of the OSB produced is being used in flooring applications. While this is not a primary application for U.S. plywood, as the necessary code approvals are attained for OSB, it is probable that

European OSB will be increasingly used in structural applications where U.S. softwood plywood is currently preferred.

Increased Finnish and Swedish Plywood Production

In addition to competition from OSB, key competitors, Finland and Sweden, have recently been increasing softwood plywood production. Production from Finland and Sweden has more than doubled since 1993 and some analysts have indicated that they expect Europe to be 80 to 90 percent self sufficient in panel products in a few years.

Year	Finland 1000 CUM	Sweden
1993	200	73
1994	240	85
1995	300	110
1996	340	117
1997	400	120
1998est.	435	125

Source: FAS Attache Reports

Asian Crisis

While Finnish and Swedish production of softwood plywood has increased, their exports to Japan have fallen dramatically. In 1997 Sweden and Finland exported more than \$6 million of softwood plywood to Japan. However, in 1998 exports amounted to less than \$1 million. Although some of this plywood may have found markets in other non-EU countries, most of it has remained in the EU.

In addition, the currency depreciations in Asia, and the weak Japanese market have resulted in EU imports of very inexpensive Asian plywood. Although official figures are not available, these exports no doubt have had a negative impact on U.S. sales to the EU.

On the positive side, many U.S. manufacturers

believe that the extremely low prices on imported Asian plywood will not be maintained in 1999. Manufacturers are also optimistic that the Japanese market will improve in 1999, removing some plywood from Europe.

Strong U.S. Demand

Finally, weak U.S. softwood plywood exports to the EU can also be attributed to strong demand in the United States. Low interest rates and a strong economy have resulted in record housing starts. Although analysts continue to expect a slowdown in the U.S. housing market, there was no slowdown in 1998, and the U.S. Commerce Department recently reported that privately owned housing starts in December hit a seasonally adjusted annual rate of more than 1.7 million.

EU acceptance for American OSB?

*By William P. Bomersheim,
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Although Oriented Strand Board (OSB) is revolutionizing the structural panel markets in the United States and Europe, U.S. OSB exports to the European Union (EU) remain very small. U.S. OSB exports to the EU totaled only 3,050 cubic meters (cum) in 1998, and have never amounted to more than 10,500 cum. In comparison, U.S. softwood plywood exports to the EU in 1997 were nearly 900,000 cum. While there are many reasons for the lack of OSB exports, one reason is the slow development of European standards for OSB and the differences between European and American standards.

OSB has been available in the EU for 8 to 10

years. However, the EU did not establish the first European Norm (EN 300) for OSB until 1997. EN 300 describes four classes of OSB based on mechanical and physical property characteristics. However, unlike U.S. softwood plywood, American OSB is not directly equivalent to European OSB classifications. This has forced U.S. producers to qualify an export grade of OSB for the EU market.

In March of 1998, the first licensing agreements were drawn up that would provide an opportunity for U.S. mills to obtain EN 300 OSB Class 3 approval. OSB Class 3 is primarily used in house (roof, and wall) sheathing applications. Qualification to this performance level requires enhanced bending, internal bond, and thickness swell criteria. While many U.S. mills meet the mechanical property requirements, each mill must also prove that an equilibrium moisture content above 5 percent has been achieved. Typically, U.S. OSB leaves the mill with moisture content below 3 percent.

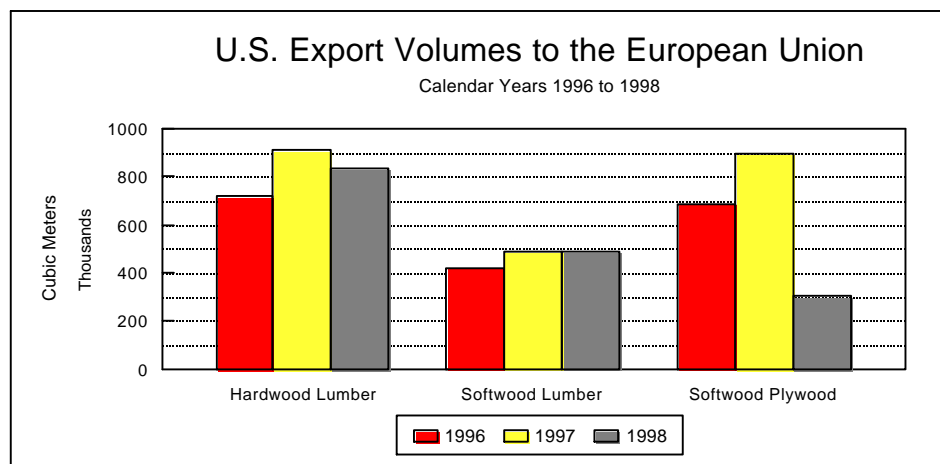
Consequently, a few U.S. mills have attained EN 300 OSB Class 1 and 2 approvals, but none have obtained EN 300 OSB Class 3 approval. Furthermore, since OSB designed to the EN 300 OSB Class 3 specifications is not typically used in the United States, many U.S. firms may be discouraged from altering production.

U.S. lumber exports to the EU hold steady in 1998

*By William P. Bomersheim,
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Although U.S. softwood plywood exports to the European Union (EU) fell 65 percent in 1998, U.S. lumber exports to the EU maintained their relatively high volumes. Buoyed by the strong European economy,

U.S. softwood lumber shipments to the EU increased marginally to 488,000 cubic meters (cum) in 1998, up from 487,000 cum in 1997 and 420,000 cum in 1996. U.S. hardwood lumber shipments decreased slightly to 835,000 cum in 1998, but remained second only to the record breaking 911,000 cum exported to the EU in 1997. Taken together, the EU represents a \$679 million market for American lumber producers (1998 data).



**U.S.
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products trade with Canada

By Shari Kosco, Ag Economist for Canada

It's not surprising that the U.S. wood products industry regards our neighbor to the north as a major customer. After all, Canada is the second largest wood products export market for the United States, and the top source of U.S. imports. However, it may be surprising to learn that the North American Free Trade Agreement (NAFTA), which was implemented in 1994, has had little overall effect on solid wood products trade between the United States and Canada. Economic growth, exchange rates, commodity price relationships, and other U.S.-Canada trade agreements have

impacted
forest
products
trade

between the two countries more than the well-known NAFTA.

In the years between 1993 and 1998, the value of U.S. wood exports to Canada rose 38 percent to \$1.5 billion, and Canada's share of U.S. wood product exports to all countries climbed from 15 to 26 percent. Despite a very weak Canadian dollar and Canada's own high forest product output, U.S. exports grew-- along with a strengthening Canadian economy (especially in 1997) and surging demand for U.S. wood products that are further processed in Canada for re-export to the U.S. and abroad.

During 1993 to 1998, higher exports were seen for hardwood lumber (for furniture manufacture and re-export to the U.S. and for re-export of the lumber itself, often to the

EU), softwood and hardwood logs (mainly border trade), and builders' carpentry and other value-added wood products.

Meanwhile, U.S. wood-product imports from Canada rose even more rapidly than exports, up 55 percent over the 1993-98 period to \$9.7 billion. Vigorous U.S. economic growth, a 15 percent increase in the value of the U.S. dollar over the Canadian dollar, rapid growth in U.S. housing construction, and reduced U.S. softwood production in the West fed the strong U.S. import demand, particularly for softwood lumber for new housing construction. Despite these factors, Canada's share of U.S. wood imports remained at about 73 percent during the 1993-98 period.

The U.S.-Canada Free Trade Agreement and the U.S.-Canada Softwood Lumber Agreement have had more significant effects on wood trade between the two countries than NAFTA. This is because wood tariffs between the two countries were already relatively low and reductions were phased in under the U.S.-Canada Free Trade Agreement, which began in 1989 (5 years before NAFTA began).

Additionally, the U.S.-Canada Softwood Lumber Agreement, reached in 1996 after years of negotiation, played a role in limiting the effects of NAFTA on U.S. imports from Canada. Under this agreement, Canada agreed to limit the tax-free volume of softwood lumber exported to the U.S. from certain provinces. In exchange, the United States pledged to refrain from bringing trade actions against Canada during the five-year agreement. The U.S. industry claims that Canadian mills are subsidized because Canadian provinces, which own most of the timber, charge low stumpage fees that do

not reflect the true market value of the timber.

Disagreements continue over several issues relating to the implementation of the Agreement, as well as its perceived impact on construction costs. The United States has requested an arbitrator to settle a dispute over British Columbia's decision in 1998 to lower stumpage rates to help its ailing forest products industry. No decision is expected before late spring or early summer. A number of other changes intended to lessen the financial burden on British Columbia's wood products industry are currently under review by the United States.

